

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2016

Docket No. ACR2016

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO  
QUESTIONS 1-2, 4-9, 11-13, 15-19, 23, 28, AND 31-33 OF CHAIRMAN'S  
INFORMATION REQUEST NO. 3

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 3, issued on January 6, 2017. Each question is stated verbatim and followed by the response. Responses to questions 3, 10, 14, 21-22, 24-27, 29, and 30 are still being prepared. The responses to questions 29 and 30 are contingent upon data analysis that is underway, but is not expected to be completed until sometime next week, allowing answers to be filed (given the administrative disruptions anticipated in the latter half of next week) approximately January 24th.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. On page 21 of its FY 2016 Form 10-K,<sup>1</sup> the Postal Service states that “[t]otal work hours increased by approximately 30 million, or 2.6%, from [2015 to 2016]....[This increase was] in part due to the increase in work hours for city delivery and customer service operations....” Please provide all data (and data sources) showing the workhour measurements by Labor Distribution Code for FY 2015 and FY 2016.

**RESPONSE:**

The requested material is provided as an electronic attachment to this document.

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<sup>1</sup> United States Postal Service Annual Report on Form 10-K, November 15, 2016, at 21.

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2. On pages 50 and 51 of Library Reference USPS-FY16-17, December 29, 2016, the Postal Service discusses Total Factor Productivity (TFP). Please provide all supporting workpapers for the derivation of FY 2016 TFP.

**RESPONSE:**

The requested material is provided as an electronic attachment to this document.

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4. Please provide the number of Self Service Kiosks (SSKs)<sup>4</sup> in operation as of the end of FY 2016. Please describe any formal plan(s) for the addition of more SSKs during FY 2017.

**RESPONSE:**

At the end of FY 2016 there were 2,838 SSKs in operation in 2,277 post offices. There are no new additional SSKs formally planned for FY 2017.

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<sup>4</sup> Previously referred to as Automated Postal Centers (APCs).

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5. In Docket No. ACR2015, the Postal Service filed a "Retail Revenue by Channel" table in response to a CHIR.<sup>5</sup> Please provide an updated table for FY 2016.

**RESPONSE:**

<b>Channel</b>	<b>FY2016 Revenue</b>	<b>Share of Total</b>	<b>Change from FY2015</b>
<b>Post Office Revenue</b>	\$10,571,881,372	78.4%	1.83%
<b>Stamp Sales by Partners</b>	\$1,083,963,993	8.0%	2.70%
<b>SSK/APC</b>	\$427,522,271	3.2%	11.79%
<b>Stamps by Mail/Phone/FAX</b>	\$75,970,941	0.6%	4.31%
<b>Contract Units</b>	\$144,855,314	1.1%	3.25%
<b>Click n Ship</b>	\$553,827,184	4.1%	-0.23%
<b>Other</b>	\$ 617,981,560	4.6%	2.55%
<b>TOTAL RETAIL REVENUE</b>	<b>\$13,476,002,636</b>	<b>100.0%</b>	<b>-1.17%</b>

Note: The Postal Service periodically reviews the characteristics of our products and services and how customers are using them. In FY16, we reviewed one of our retail channels – the PC Postage channel. The review uncovered that key characteristics of this channel had changed since 2008. As result, this changed the metrics that we have traditionally used to measure alternate access. With this change, Retail Window brick and mortar now represents 78.4 percent of our total retail revenue.

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<sup>5</sup> Docket No. ACR2015, Responses of the United States Postal Service to Questions 5-7, 9-10, 12, and 17-28 of Chairman's Information Request No. 6, January 29, 2016, question 6.

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- 6.** Please provide the proportion of collection boxes for which the last mail pickup time is:
- a. Midnight to 11:59 a.m.
  - b. Noon to 2:59 p.m.
  - c. 3:00 p.m. to 4:59 p.m.
  - d. 5:00 p.m. to 6:59 p.m.
  - e. 7:00 p.m. to 11:59 p.m.

Additionally, please differentiate between weekdays and weekends, if applicable.

**RESPONSE:**

- a. Monday-Friday: 17%; Saturday: 42%.
- b. Monday-Friday: 24%; Saturday: 35%.
- c. Monday-Friday: 40%; Saturday: 18%.
- d. Monday-Friday: 18%; Saturday: 5%.
- e. Monday-Friday: 1%; Saturday: 0%.

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7. Please confirm that the Postal Service has not updated Handbook PO-101 since October 1, 2012.<sup>6</sup> If not confirmed, please provide the updated handbook.

**RESPONSE:**

Confirmed.

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<sup>6</sup> See Handbook PO-101 at iv.

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8. For CY 2015, please provide the final monthly, quarterly, and annual quality of service measurement results for the link to terminal dues provided to the Postal Service by the International Post Corporation (IPC) or its contractor.

**RESPONSE:**

Please see CY 2015 material, filed under seal, as part of USPS-FY16-NP31 that accompanies this response. In this document, the UPU also issued information regarding the performance results of other countries' postal operators. Those other countries' performance results are redacted (even though this file is submitted in a non-public folder) because they are sensitive business information of the foreign posts.



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9. For CY 2016, please provide the preliminary or final monthly, quarterly, and annual quality of service measurement results for the link to terminal dues provided to the Postal Service by the IPC or its contractor. If preliminary or final results are not available, please provide the expected date of availability.

**RESPONSE:**

Please see CY 2016 material, filed under seal, as part of USPS-FY16-NP31 that accompanies this response. This report covers calendar year 2016 through November. Final results for CY 2016 are not anticipated until end of February 2017. In this document, the UPU also issued information regarding the performance results of other countries' postal operators. Those other countries' performance results are redacted (even though this file is submitted in a non-public folder) because they are sensitive business information of the foreign posts.

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- 11.** Please provide the Postal Service's EMS Cooperative report card for Quarter 4 of CY 2015 and its annual report card for CY 2015.

**RESPONSE:**

Please see the Postal Service's EMS Cooperative Aggregate Report Card for Quarter 4 of CY 2015 and the Postal Service's EMS Cooperative Annual Individual Report Card for CY 2015, both filed under seal as part of USPS-FY16-NP31 that accompanies this response.

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- 12.** Please provide the Postal Service's preliminary or final EMS Cooperative monthly, quarterly, and annual report cards for CY 2016. If preliminary or final report cards are unavailable, please provide the expected date of availability.

**RESPONSE:**

Please see the Postal Service's EMS Cooperative Aggregate Report Cards for Quarters 1, 2, and 3 of CY 2016, filed under seal as part of USPS-FY16-NP31 that accompanies this response. Monthly report cards were not issued for CY 2016. The Postal Service's EMS Cooperative Aggregate Report Card for Quarter 4 of CY 2016 and the Postal Service's EMS Cooperative Annual Individual Report Card for CY 2016 are not yet available, but those reports are expected to be available by April 2017.

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- 13.** Please confirm that during FY 2016 the EMS Cooperative Pay-for-Performance Plan was applicable to all KPG members who entered Inbound EMS into the U.S. If not confirmed, please identify which KPG members that entered Inbound EMS into the U.S. were not subject to the EMS Cooperative Pay-for-Performance Plan and explain why the EMS Cooperative Pay-for-Performance Plan was not applicable to those KPG members.

**RESPONSE:**

Not confirmed. During FY 2016, KPG members China Post Group and Correos y Telégrafos SAE were not subject to the EMS Cooperative Pay-for-Performance Plan because they opted not to participate in that plan with the Postal Service.

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- 15.** For the IMTS—Outbound and Inbound products during FY 2016, please provide the total number of In-Office Cost System (IOCS) tallies, the coefficient of variation for the IOCS-based cost estimate, and the 95-percent confidence interval for the cost coverage.

**RESPONSE:**

There were five (5) IOCS tallies for IMTS in FY2016, and the coefficient of variation (CV) for the IOCS-based cost estimate is 45 percent. The 95-percent confidence interval for the cost coverage is between 34 percentage points below and 155 percentage points above the point estimate reflected in the Nonpublic CRA (USPS-FY16-NP11).

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- 16.** Please provide an updated FY 2016 version of Excel file "ChIR.2.Q.10.IMTS.xlsx," filed in Docket No. ACR2015, Library Reference USPS-FY15-NP31, January 15, 2016.

**RESPONSE:**

The requested updated file is provided under seal as part of USPS-FY16-NP31, as Excel sheet ChIR3 Q16 IMTS.xlsx.

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- 17.** For the two Multi-Service Agreements with cost coverage below 100 percent, please provide estimated revenue at UPU rates that demonstrates that the agreement is an improvement in the Postal Service's net financial position.

**RESPONSE:**

Based on information in Excel sheet CHIR.3.Q.17.Bilaterals.xlsx, which the Postal Service has filed in USPS-FY16-NP31, the bilateral agreement with Royal PostNL BV (Post NL 2014 Agreement) filed in Docket No. R2015-3, as well as the bilateral agreement with Canada Post (Canada Post 2014 Agreement) filed in Docket No. R2014-3, improved the Postal Service's net financial position.

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- 18.** If either of the above-referenced Multi-Service Agreements does not improve the net financial position of the Postal Service over UPU rates, please discuss what steps the Postal Service is taking to improve its cost coverage.

**RESPONSE:**

Not applicable. As discussed in the response to Question 17, both of the above-referenced Multi-Service Agreements improved the net financial position of the Postal Service over UPU rates.



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- 19.** For CY 2015 and CY 2016, please provide the required service features for bonus payments under the UPU inward land rate bonus system and the corresponding bonus percentages.

**RESPONSE:**

The requested material has been filed under seal as part of USPS-FY16-NP31.

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- 23.** For the Inbound Parcel Post (at UPU rates) product, please provide the total number of IOCS tallies, the coefficient of variation for the IOCS-based cost estimate, and the 95-percent confidence interval for the cost coverage.

**RESPONSE:**

There were 158 tallies for all inbound Parcel Post (including Canada) in FY2016. The coefficient of variation (CV) for the total of IOCS-based mail processing costs, based on the Generalized Variance Function approach, is 10.6 percent. The 95-percent confidence interval for cost coverage, accounting only for this approximation to the mail processing CV, ranges from 8 percentage points below to 9 percentage points above the point estimate reflected in the Nonpublic CRA (USPS-FY16-NP11). However, note that the calculation of the costs for Inbound Parcel Post (at UPU rates) involves estimation of separate costs for small subsets of this total (e.g. inbound Air Parcel Post for Developing Countries, inbound Surface Parcel Post for Developing Countries, inbound Air Parcel Post for Industrialized Countries, etc.), then re-combining to get a weighted average for the components that belong to the UPU category. Implementing these same procedures when estimating the CV for Inbound Parcel Post (at UPU rates) would result in an increase in the CV and a wider confidence interval.

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- 28.** Please explain why the price structure changes that were implemented in Docket No. R2015-4 (*i.e.*, movement of mail from one rate cell to another, such as Carrier Route pieces moving to Standard Mail Flats Sequencing System (FSS) pieces) were not included in the original net financial value calculation of the PHI NSA.

**RESPONSE:**

Standard Mail Flats Sequencing System (FSS) pieces were not included in the original net financial value calculation of the PHI NSA because customer FSS mail data were not available at the time of filing. The contract was initiated before the Postal Service implemented FSS pricing.

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- 31.** The following table compares the estimated product mail mix of the PHI NSA from the original filing to the actual product mail mix for Contract Year 1 and Contract Year 2.<sup>10</sup> The table also contains the unit cost, unit revenue, and unit contribution for the product mail mix.

	<b>Estimate for Contract Year 1</b>	<b>Actual Contract Year 1</b>	<b>Estimate for Contract Year 2</b>	<b>Actual Contract Year 2</b>
<b>Percent Carrier Route</b>	100%	98.83%	100%	85.35%
<b>Average Unit Cost</b>	\$0.179	\$0.187	\$0.184	\$0.216
<b>Average Unit Revenue</b>	\$0.233	\$0.233	\$0.237	\$0.237
<b>Average Unit Contribution</b>	\$0.054	\$0.045	\$0.053	\$0.021

In light of price structure changes and subsequent mail mix changes, has the Postal Service amended the PHI NSA? If so, please explain how (e.g., to include only Carrier Route). If not, please explain why not.

**RESPONSE:**

The Postal Service has not amended the PHI NSA. The Postal Service has requested PHI to provide volume and mail mix forecasts for the remainder of the contract. In addition, we will be collecting data over the next several months and reviewing the customer volume impacts of the FSS classification change due to Order No. 3610. We will then assess whether an amendment would be appropriate after we review the information.

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<sup>10</sup> See Docket Nos. MC2014-21 and R2014-6, Notice, Excel file "PHI\_NSA\_Financials.FINAL.xlsx," tab "3\_Revenue and Cost;" see Docket No. ACR2015, Library Reference USPS-FY15-30, Excel file "FY15 30 ACR\_NSA\_2015.xlsx," tab "2\_MC2014-21 PHI NSA;" see Library Reference USPS-FY16-30, Excel file "FY16 30 ACR\_NSA\_2016.xlsx," tab "2\_MC2014-21 PHI NSA."

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- 32.** In Order No. 3610, the Commission approved the removal of the Postal Service's FSS price categories.<sup>11</sup> Has the Postal Service reassessed the projected net financial value of the PHI NSA for Contract Years 3, 4, and 5 based on the price structure changes approved in Order No. 3610? If so:
- a. Please provide an updated estimate of the net financial value of the PHI NSA over the course of the entire contract (e.g., Contract Years 1-5 in total); and
  - b. Please provide estimates for the mail mix percentage (Standard Mail Flats versus Carrier Route), unit revenue, and unit cost for Contract Years 3, 4, and 5.
  - c. If not, please explain why not.

**RESPONSE:**

The Postal Service has not reassessed the projected net financial value of the PHI NSA for Contract Years 3, 4, and 5, based on the price structure changes approved in Order No. 3610.

- a. No updated estimate is available at this time.
- b. No updated estimate is available at this time.
- c. As stated in our response to Question 31 of this Information Request, we will be collecting data over the next several months and reviewing the customer volume impacts of the FSS classification change due to Order No. 3610, in order to provide more reliable estimates of future customer performance.

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<sup>11</sup> Docket No. R2017-1, Order on Price Adjustments for First-Class Mail, Standard Mail, Periodicals, and Package Services Products and Related Mail Classification Changes, November 15, 2016, at 16 (Order No. 3610); *see also* Docket No. R2017-1, United States Postal Service Notice of Market Dominant Price Adjustment, October 12, 2016, at 13.

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- 33.** In Docket No. ACR2016, Library Reference USPS-FY16-29, the Postal Service states that service performance for market dominant parcels is measured using an internal system called the "Product Tracking and Reporting System (PTR)."<sup>12</sup> In Docket No. ACR2015, Library Reference USPS-FY15-29, the Postal Service asserted that service performance for market dominant parcels was measured using an internal system called the "Product Tracking System (PTS)."<sup>13</sup> Please explain all data, methods, and volumes for both PTS and PTR in FY 2015 and FY 2016. Additionally, please describe all differences between these systems.

**RESPONSE:**

Any references to the effect that the Postal Service used the Product Tracking System (PTS) in FY 2015 or FY 2016 were erroneous. As explained in detail on pages 15-17 of the Report on Methodologies for Service Performance Measurement that the Postal Service filed with the ACR 2016 within USPS-FY16-29, the Product Tracking and Reporting System (PTR) replaced PTS during 2013. PTS was not used in FY 2015 or FY 2016.

The methods for PTR are explained on pages 15-17 of the Report on Methodologies for Service Performance Measurement that the Postal Service filed with the ACR 2016 within USPS-FY16-29. The data and volumes for market-dominant parcels and other package and special services using PTR in FY 2015 and FY 2016 have been filed publicly with the Commission within the Postal Service's Quarterly Service Performance Reports (and appear on the Commission's website) as filed on February 9, 2015, May

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<sup>12</sup> Docket No. ACR2016, Library Reference USPS-FY16-29, December 29, 2016, "FY16-29 Service Performance Report.pdf," at 2-3.

<sup>13</sup> Docket No. ACR2015, Library Reference USPS-FY15-29, December 29, 2015, "Service Performance ACR FY15.pdf," at 2-3.

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11, 2015, August 10, 2015, November 9, 2015, February 10, 2016, May 10, 2016, August 9, 2016, and November 9, 2016.

PTR is an industry-leading solution that replaced its legacy mainframe PTS in April 2013. PTR became the source for service performance data for parcels and trackable extra services in August 2013. PTR provides a modern, seamlessly integrated solution that supports the various USPS business functional areas involved in the package delivery process. This system was needed to support Postal Service strategies to provide world class service and visibility and improve the customer experience for package products. These strategies included barcoding all packages and providing near real-time end to end tracking – which exceeded capabilities of the legacy PTS system.

Legacy PTS was a single mainframe based, DB2 database primarily programmed in COBOL. The system – developed and deployed in 1996 to support limited Product Tracking Scope – was costly to operate, difficult to enhance to meet new business needs, at capacity and performance limits and at end of life. The system lacked redundancy and was prone to performance and availability problems. PTS lacked capacity to ingest all tracking events from all sources or support package volume and scan event growth.

PTR leverages modern architecture, software, and hardware to provide a high availability system supporting near real-time event processing and provisioning. PTR provides near real-time processing and visibility of scan events and business data for

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internet, customer event files, notification alerts and internal Postal systems. Its Oracle databases run on state of the art redundant servers for each application tier, clustered for high availability. PTR leverages modern technology components such as Java, MQ Messaging, and Informatica. The system is clustered and highly redundant, which allows system upgrades with minimal to no outages – unlike PTS which required weekly 14 hour outages for database maintenance and similar timeframes for enhancement upgrades. PTR has enhanced monitoring and problem detection tools and error handling, and its failover architecture protects against unplanned outages. PTR is designed to support future event transaction volume growth across all events for all package products and services.